

MY WEIRD PROMPTS

Podcast Transcript

EPISODE #307

The Economic Island: Why Israel is So Expensive

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EPISODE SYNOPSIS

From the "economic island" effect to the stranglehold of powerful distribution monopolies, this episode explores the complex web of factors that make Israel's cost of living a constant struggle for its citizens. Herman and Corn examine why legislative fixes like VAT exemption increases get stalled, how the "dual economy" of high-tech wealth creates a massive wage gap, and why the government might actually be incentivized to keep housing prices high. They discuss the "What is Good for Europe" reforms and offer a roadmap for breaking the oligopolies that keep supermarket shelves expensive, providing a deep dive into the structural issues and potential solutions for one of the world's most unique economic landscapes.

DANIEL'S PROMPT

Daniel

We talked in recent episodes about the changes to Israel's VAT limit on the purchase of goods being effectively doubled from \$75 to \$150. While this is a significant change, calling it a direct fix for the cost of living is an overstatement. It's hollowing out the local retail scene, but I feel little remorse for local businesses because so many goods are imported and marked up excessively. This will likely accelerate the trend of buying from abroad, but it's only part of the picture. The cost of living in Israel should be front and center, but it's often pushed to the periphery by security concerns and political distractions. I'd like to discuss the reasons for the constant high cost of living in Israel. We've talked about Israel being an economic island with limited regional trade, which creates a choke point at the ports. There's also the issue of an oligopoly where a few families control the economy, and the role of the Israel Standards Institute's red tape. Comparing essentials to the US, prices here are shocking. Herman and Corren, is the cost of living rising everywhere, or is it specifically worse in Israel? Beyond the VAT reform, what other factors are at play, such as wage inequality, inflation, and the housing crisis? Why does the cost of living never seem to go down, and what dynamics can we actually change to make the country more affordable?

TRANSCRIPT

Corn

Hey everyone, welcome back to My Weird Prompts. I am Corn, and I am joined as always by my brother.

Herman

Herman Poppleberry, at your service. And man, do we have a heavy one today. Our housemate Daniel sent over an audio prompt that is basically the number one topic of conversation at every dinner table in Jerusalem right now, even if it often gets overshadowed by the news cycle.

Corn

Yeah, Daniel was asking about the cost of living in Israel. It is one of those things where you feel it every time you tap your credit card at the grocery store or look at your rent. But Daniel mentioned something interesting about the Value Added Tax limit on personal imports being doubled from seventy-five dollars to one hundred fifty dollars. Herman, I know you have been tracking the legislative side of this. Is that actually a thing now?

Herman

So, this is a classic example of how confusing Israeli policy can be. There has been a massive push and a lot of headlines about doubling that exemption to one hundred fifty dollars to help lower the cost of living. But as of today, January twenty-sixth, two thousand twenty-six, that specific change actually has not been fully implemented yet. It has been stuck in committee and faced a ton of pushback from local retailers who, as Daniel pointed out, are terrified of being hollowed out by international giants like Amazon or AliExpress.

Corn

That is fascinating because the perception is often that it is a done deal. It shows how much people are desperate for any kind of relief. If that change did happen, it would be a huge shift for the local economy, but as Daniel said, it is only a tiny slice of the pie. The real question he asked is why is everything so expensive here? Is it just a global trend, or is Israel uniquely expensive?

Herman

It is a bit of both, but Israel definitely has some unique structural issues that act like a multiplier. If you look at the data from the Organization for Economic Cooperation and Development, Israel consistently ranks as one of the most expensive countries in the world. For years, we have seen price levels that are twenty percent or even thirty percent higher than the average of other developed nations. While inflation has hit everyone globally over the last few years, Israel started from a much higher baseline.

Corn

Right, and Daniel brought up the idea of Israel being an economic island. I think that is a perfect metaphor. We are geographically connected to the region, but economically, we are almost entirely dependent on sea and air travel for goods. We do not have those massive overland trucking routes coming in from neighboring countries like you see in Europe or North America.

Herman

Exactly. When you are an island, your ports are your only lungs. If those ports are inefficient, or if they are controlled by powerful labor unions or monopolies, every single item that comes through gets a hidden tax added to it in the form of delays and handling fees. We have two main ports in Haifa and Ashdod, and while new private ports have opened up recently to add competition, the transition has been slow. You still have these massive backlogs sometimes, and the cost of that friction is passed directly to the consumer.

Corn

And that leads into the other point Daniel made about the oligopolies. He mentioned a few families controlling the economy. It is not just a conspiracy theory, right? There is actual market concentration here that is pretty startling compared to the United States.

Herman

Oh, it is very real. In the food and consumer goods sector, you have a handful of giant companies and importers like Diplomat, Strauss, and Osem. These companies do not just make products; they are often the exclusive distributors for international brands. So, if you want a specific brand of shampoo or cereal that is made in Europe, it often has to go through one of these giant gatekeepers. When one company controls the distribution of fifty different brands, they have incredible leverage over the supermarkets.

Corn

I remember we touched on market dynamics back in episode one hundred five when we were talking about benchmarks. It is hard to have a fair benchmark for prices when the competition is so limited. If I am a small importer and I want to bring in a cheaper version of a popular product, I have to jump through so many hoops that it is often not worth it.

Herman

That is where the Israel Standards Institute comes in. This is the red tape Daniel was talking about. For a long time, Israel had its own unique standards for everything from vacuum cleaners to mayonnaise. If a product was already certified as safe by the European Union or the United States Food and Drug Administration, that was not good enough. You had to pay for a separate Israeli test, which could cost thousands of shekels and take months.

Corn

Which essentially acts as a protective wall for the big local players. They can afford the testing, but the small guy cannot.

Herman

Precisely. Now, there has been a big reform push called What is Good for Europe is Good for Israel. The idea is to automatically accept European standards for most consumer goods. It started rolling out, but it is not a silver bullet. There are still many exceptions, especially in the food industry, and the bureaucracy has a way of dragging its feet. Plus, even if the standards are lowered, you still have the issue of exclusive distribution rights. If one company has the legal right to be the only importer of a specific brand, lowering the standards just means they make more profit; it does not necessarily mean the price goes down for you and me.

Corn

It feels like a multi-layered trap. You have the geographical isolation, the port issues, the distributor monopolies, and then the regulatory red tape. But then there is the elephant in the room that Daniel mentioned, which is the security situation. He said it pushes the cost of living to the periphery. How much does the defense budget actually eat into the possibility of making life cheaper?

Herman

It is a massive drain, especially lately. When you have a significant portion of your Gross Domestic Product going toward defense, that is money that is not being spent on infrastructure, education, or subsidies that could lower costs. But it is also about human capital. Think about the reserve duty. When tens of thousands of people are called away from their jobs for months at a time, productivity drops, and businesses have to raise prices just to stay afloat. It creates this constant state of economic instability that makes long-term planning very difficult.

Corn

And then there is the housing crisis. Daniel mentioned it as one of the factors, and honestly, it feels like the most hopeless part for our generation. I was reading that in some areas, you need something like one hundred fifty or even two hundred monthly salaries just to buy a modest apartment. That is almost twenty years of your entire paycheck just for the walls and a roof.

Herman

The housing situation is a perfect storm. You have high demand because the population is growing fast, but the supply is choked. The government owns most of the land through the Israel Land Authority, and they release it slowly to keep prices high because land sales are a huge source of government revenue. Then you have the construction side. We have had a massive shortage of construction workers, especially since the start of the recent conflicts. Bringing in foreign labor from places like India or Uzbekistan has been a slow and bureaucratic nightmare. So, fewer houses get built, the price of land goes up, and the interest rates are high. It is a disaster for anyone trying to buy their first home.

Corn

It is interesting you mention the government revenue from land. It almost makes the government a partner in the high cost of housing. They have a financial incentive to keep prices from falling too far, which seems like a direct conflict of interest if they are also promising to lower the cost of living.

Herman

You hit the nail on the head. A huge chunk of the national budget comes from taxes on real estate and the sale of land. If housing prices crashed tomorrow, the government would have a massive hole in its budget. This is why we see these small, incremental programs that help a few thousand people, like the Price for the Occupant lotteries, but we never see a fundamental shift in how land is managed.

Corn

So, we have talked about the supply side, but what about the income side? Daniel mentioned wage inequality. We have this high-tech bubble where people are making very good salaries, often comparable to Silicon Valley. But if you are a teacher, a social worker, or you work in retail, your salary has not kept up with the price of milk and eggs.

Herman

This is what economists call the dual economy. You have the high-tech sector, which is productive, global, and wealthy. It represents maybe ten or twelve percent of the workforce but generates a huge portion of the country's tax revenue. And then you have the other ninety percent of the economy, which is much less efficient and has stagnant wages. The problem is that the high-tech wealth drives up the cost of everything for everyone else. If a software engineer can afford to pay ten thousand shekels a month for an apartment in Tel Aviv, the landlord is going to charge ten thousand shekels, even if the person next door is a nurse making the same amount as their rent.

Corn

It creates this feeling of being left behind in your own country. And because the shekel has been relatively strong over the last decade, it makes imports cheaper in theory, but as we discussed, those savings rarely reach the consumer because the importers pocket the difference.

Herman

Exactly. When the shekel is strong, the importers buy goods cheaper, but they keep the shelf price the same. When the shekel is weak, they immediately raise prices because their costs went up. They win either way.

Corn

So, looking at all this, Daniel's question was what can we actually change? If we are an economic island and we have a defense burden that isn't going away, are we just stuck?

Herman

I think there are a few levers we can pull, but they require real political courage. First, you have to break the monopolies. We need aggressive anti-trust enforcement that prevents a single company from distributing dozens of competing brands. If you want to import one brand of pasta, great, but you shouldn't be allowed to import all five of the top brands. We need more parallel imports where smaller companies can buy genuine goods from third parties in Europe and bring them here without the permission of the official importer.

Corn

And what about the Standards Institute? Is the reform enough?

Herman

It is a start, but we need to go further. We should move to a system of self-regulation for most non-dangerous goods. If a product is sold in a Walmart or a Carrefour in France, it should be allowed on Israeli shelves tomorrow without a single piece of Israeli paperwork. We also need to fix the ports. We need to ensure that the new private ports are fully utilized and that the old ports are forced to modernize and compete. Competition is the only thing that will drive down those handling fees.

Corn

I also think we need to look at the food supply. Daniel mentioned that he feels little remorse for local businesses because so much is imported and marked up. But we also have a lot of local agriculture that is protected by high tariffs. We pay a lot more for fruits, vegetables, and dairy to protect local farmers.

Herman

That is a very touchy subject. On one hand, you want food security. You don't want to be entirely dependent on imports for basic food, especially in a war. But on the other hand, the protectionism is extreme. We have some of the highest prices for dairy in the world because of the quota system and the tariffs on imports. There has to be a middle ground where we support farmers through direct subsidies rather than making every family pay double for a carton of milk at the supermarket.

Corn

It feels like the recurring theme here is that the high cost of living is a result of choices. It is not an act of God. It is a result of how we manage land, how we regulate imports, and how we allow markets to be concentrated.

Herman

Absolutely. It is a collection of historical baggage, political lobbying, and genuine security challenges. But the security challenge is often used as a shield to prevent people from asking tough questions about why their cottage cheese costs three times what it does in Berlin.

Corn

I think Daniel is right that we get distracted. When there is a rocket siren or a political scandal, nobody is talking about the price of honey. But the price of honey is what affects your quality of life every single day. It is the reason young people are moving away or why families are struggling to make ends meet even with two full-time jobs.

Herman

And let's be honest, the housing situation is the biggest driver of that exodus. If you can't see a path to owning a home, your connection to the country starts to fray. You can love the culture and the people, but if you can't afford to live here, you start looking at Berlin or New Jersey or Limassol. That is a strategic threat to the country that is just as real as any external enemy.

Corn

So, what is the takeaway for our listeners who are feeling this pinch right now? Besides obviously shopping around and trying to buy from abroad when the VAT limits allow it?

Herman

I think the takeaway is to stay informed and stay loud. The only reason we are seeing these reforms like the Standards Institute change is because of public pressure. We saw it in two thousand eleven with the social protests, and we are starting to see it again. People need to demand that the cost of living be a top-tier political issue, not something that gets mentioned once in a campaign and then forgotten.

Corn

And maybe we need to be less loyal to brands. If a certain importer is jacking up prices, we have to be willing to switch to the generic or the parallel import. Consumer power is one of the few things these oligopolies actually fear.

Herman

Exactly. If everyone stopped buying the most expensive brand of chocolate for a month, you would see those prices drop incredibly fast. But that requires a level of collective action that is hard to sustain.

Corn

Well, this has been a bit of a sobering discussion, but I think it is one we had to have. Daniel, thanks for sending that in. It really forced us to look at the structural reality beneath the headlines.

Herman

Yeah, it is a complex web. We are an island, we are a garrison state, and we are a monopoly-driven market. It is a tough combination, but it is not unsolvable.

Corn

Before we wrap up, I want to remind everyone that if you are enjoying these deep dives, we would really appreciate a review on your podcast app. Whether you are on Spotify or Apple Podcasts, those ratings really help more people find the show and join the conversation.

Herman

It really does help. And you can always find us at myweirdprompts.com where we have the full archive of episodes, including the ones we mentioned today like episode one hundred five and episode two hundred ninety-seven.

Corn

We are also on Spotify, so make sure to follow us there to get the latest episodes as soon as they drop. We have some really interesting prompts lined up for the next few weeks that I think you are going to love.

Herman

Definitely. This has been My Weird Prompts. I am Herman Poppleberry.

Corn

And I am Corn. Thanks for listening, and we will talk to you next time.

Herman

Take care, everyone.

Corn

So, Herman, just between us, what is the one thing you saw in the US recently that made you the most jealous regarding prices?

Herman

Oh man, honestly? It was the electronics. I walked into a big box store and saw a sixty-five inch television for a price that wouldn't even buy you a high-end microwave here. It is just the scale of it. The sheer volume of competition in the US market makes you realize how much of a premium we pay for basically everything.

Corn

It is the small stuff too. I remember being shocked by the price of basic over-the-counter medicine. Here, you feel like you are buying liquid gold sometimes just for some ibuprofen.

Herman

It really is. It is that death by a thousand cuts. It is not just the big stuff like the car or the house; it is the five shekels extra here and the ten shekels extra there on every single item in your cart. By the end of the month, that is thousands of shekels that just vanished into the pockets of middle-men.

Corn

Well, hopefully, the reforms keep coming. We need more than just a VAT change; we need a total overhaul of how we think about the Israeli market.

Herman

I agree. Let's hope the two thousand twenty-six budget actually reflects some of that, though I won't hold my breath.

Corn

Fair enough. Alright, see you at home, Herman.

Herman

See you, Corn.

Corn

And thanks again to Daniel for the prompt. We will have to discuss this more over dinner tonight.

Herman

Assuming we can afford dinner!

Corn

Good point. Maybe just some toast tonight.

Herman

Toast it is.

Corn

Alright, signing off for real this time. Thanks for listening to My Weird Prompts. Check out the website for the RSS feed and the contact form. We love hearing from you.

Herman

Bye everyone!